

Charter Township of Shelby Macomb County, Michigan

**Financial Report
with Supplemental Information
December 31, 2007**

Charter Township of Shelby

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Charter Township of Shelby

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Independent Auditor's Report

To the Board of Trustees
Charter Township of Shelby
Macomb County, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate discretely presented component unit and remaining fund information of the Charter Township of Shelby as of and for the year ended December 31, 2007, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Charter Township of Shelby's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate discretely presented component unit and remaining fund information of the Charter Township of Shelby as of December 31, 2007 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, pension system schedule of funding progress, and the budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To the Board of Trustees
Charter Township of Shelby

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Charter Township of Shelby's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Morse, PLLC

June 2, 2008

Charter Township of Shelby

Management's Discussion and Analysis

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the Charter Township of Shelby (the "Township") on a government-wide basis. They are designed to present a longer-term view of the Township's finances. Fund financial statements follow the above-mentioned statements and illustrate how the services provided by the Township were financed in the short term, as well as what remains for future spending. Additionally, fund financial statements report the Township's operations in more detail than the government-wide financial statements.

In a condensed format, the table below shows the comparison of net assets (in millions of dollars) as of December 31, 2007 to the prior year:

TABLE I

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Assets						
Current assets	\$ 83.8	\$ 76.2	\$ 46.5	\$ 44.3	\$ 130.3	\$ 120.5
Noncurrent assets:						
Restricted assets	-	-	2.8	2.7	2.8	2.7
Capital assets	39.9	37.8	119.2	120.6	159.1	158.4
Total assets	123.7	114.0	168.5	167.6	292.2	281.6
Liabilities						
Current liabilities	34.6	33.9	5.7	6.2	40.3	40.1
Long-term liabilities	0.8	0.9	29.8	31.8	30.6	32.7
Total liabilities	35.4	34.8	35.5	38.0	70.9	72.8
Net Assets						
Invested in capital assets -						
Net of related debt	39.9	37.8	89.2	88.7	129.1	126.5
Restricted	31.5	20.3	3.6	4.1	35.1	24.4
Unrestricted	16.9	21.1	40.2	36.8	57.1	57.9
Total net assets	<u>\$ 88.3</u>	<u>\$ 79.2</u>	<u>\$ 133.0</u>	<u>\$ 129.6</u>	<u>\$ 221.3</u>	<u>\$ 208.8</u>

Charter Township of Shelby

Management's Discussion and Analysis (Continued)

The Township's combined net assets increased 5.9 percent from a year ago, increasing from \$208.8 million to \$221.3 million. A review of the governmental activities, separate from the business-type activities, shows an increase of approximately \$9.1 million in net assets, or 11.5 percent, during fiscal year 2007. This increase was the result of road paving, intersection renovations, and numerous capital projects. The Township began its campus renovation project that includes expanded and redesigned parking, additional road access, updated lighting, and sewer and water service to outlying buildings and the proposed Police Judicial Building. Planning and discussions continue on the Police Judicial Building project located on the Township campus with an anticipated completion in late fall of 2009. In 2007, the Township built two pedestrian bridges over highway M-53. These bridges connect the east and west sides of the Township and provide pedestrian and bicycle traffic access to various Township parks and bike paths. Approximately 40 percent of the cost of these pedestrian bridges was funded through grant money. The Downtown Development Authority, with a 2008 budget based on tax capture from the Township district itself and other taxing entities, is discussing improvements to the Van Dyke Avenue corridor as well as other community projects. In January 2007, the Township began a \$1 million migration to a new Financial Management Information System from its legacy main frame computer system. This project includes new technology and software for recreation, imaging storage and retrieval, utility billing, financial reporting, accounts payable, payroll, and ultimately on-line services for businesses, residents, and employees. Because of the scope of this project, the estimated completion date for all systems is spring of 2009.

The business-type activities experienced a 2.6 percent increase in net assets. This was primarily due to contributions of water and sewer lines by developers, increased interest income, and the continued growth in the customer base.

Unrestricted net assets for the governmental activities were \$16.9 million at December 31, 2007. This amount represents the part of net assets that is available to finance day-to-day operations and future growth of the Township.

Charter Township of Shelby

Management's Discussion and Analysis (Continued)

The following table shows the changes in net assets (in million of dollars) as of December 31, 2007 and the prior year:

TABLE 2

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Revenue						
Program revenue:						
Charges for services	\$ 7.7	\$ 8.9	\$ 20.0	\$ 18.5	\$ 27.7	\$ 27.4
Operating grants and contributions	0.7	1.0	-	-	0.7	1.0
Capital grants and contributions	0.2	0.5	1.4	3.7	1.6	4.2
General revenue:						
Property taxes	30.8	28.6	-	-	30.8	28.6
State-shared revenue	5.0	5.1	-	-	5.0	5.1
Interest	2.9	2.4	2.1	2.1	5.0	4.5
Other	1.6	1.5	-	-	1.6	1.5
Total revenue	48.9	48.0	23.5	24.3	72.4	72.3
Program Expenses						
General government	7.6	8.3	-	-	7.6	8.3
Public safety	24.5	23.9	-	-	24.5	23.9
Public works	1.8	1.1	-	-	1.8	1.1
41st District Court	2.1	2.1	-	-	2.1	2.1
Recreation and culture	3.9	4.3	-	-	3.9	4.3
Interest on long-term debt	-	-	-	-	-	-
Shelby Manor senior housing	-	-	1.4	1.3	1.4	1.3
Water and sewer	-	-	18.6	18.1	18.6	18.1
Total program expenses	39.9	39.7	20.0	19.4	59.9	59.1
Transfers	0.1	0.3	(0.1)	(0.3)	-	-
Change in Net Assets	9.1	8.6	3.4	4.6	12.5	13.2
Net Assets - Beginning of year	79.2	70.6	129.6	125.0	208.8	195.6
Net Assets - End of year	<u>\$ 88.3</u>	<u>\$ 79.2</u>	<u>\$ 133.0</u>	<u>\$ 129.6</u>	<u>\$ 221.3</u>	<u>\$ 208.8</u>

Governmental Activities

The Township's total governmental revenues increased by approximately \$900 thousand, or 1.9 percent, from the last fiscal year. This was primarily attributable to an increase in property tax revenue of \$2.2 million and an increase in investment income of \$500 thousand. Although state-shared revenues remain substantially flat, earnings on investments increased 21 percent over the year. The Township has enjoyed a long period of growth in residential homes and development of a large business and industrial tax base. This growth mitigates some of the impact of state-shared revenues and other economy-driven fluctuations. The Township is updating its five-year financial forecast to incorporate anticipated uncertainty and fluctuations in the economy over the next few years that may affect property tax estimates.

Charter Township of Shelby

Management's Discussion and Analysis (Continued)

Total government expenses increased by about \$200 thousand, or .5 percent, over the last fiscal year. This increase resulted from the continued growth of Shelby Township and the various needs of the community. Evidence of this growth and demand on Township resources is a 2.5 percent increase in public safety. The actual growth in cost in this area of service, when comparing 2006 to 2007, was modified by lower capital and administrative costs in the Fire Fund in 2007. In 2006, the Fire Fund transferred \$1.5 million to a Capital Project Fund for possible future development. The Fire Fund also reimbursed the General Fund for various prior years' administrative costs in 2006. Absent these one-time adjustments, public safety costs would show an average increase of 7.3 percent. General government cost decreased by 8.4 percent. The Township board closely monitors operating costs and has held full-time staffing to a minimum. The board also weighs the need for capital expenditures against the challenges of the soft economy and chooses projects accordingly. The Township predicts that the new web-based financial software will improve and expand services to residents in a more labor-efficient manner. Township management established a postemployment benefit fund in 2003 and anticipates an updated actuarial funding recommendation, at which time the board will discuss funding options in accordance with Act 451.

Business-type Activities

The Township's business-type activities are recorded in the Water and Sewer Fund and Senior Housing Fund. Revenues of the Township's business-type activities decreased 3 percent to \$23.5 million. The small decrease was primarily attributable to a decrease in front footage assessments, connection fees, and contributions from developers, which is indicative of the slow-down in regional development. Expenses increased 3 percent to \$20 million for the year ended December 31, 2007. This increase was due to increases in purchased water and sewage disposal costs, which were offset by decreases in all other cost categories such as operation and maintenance (O&M), administrative and general (A&G), and interest expense.

Charter Township of Shelby

Management's Discussion and Analysis (Continued)

The Township provides water, which is purchased from the City of Detroit Water and Sewage Department (DWSD), to 24,845 accounts, or nearly all its residents and all commercial customers. The Township also provides sewer service to 13,621 accounts or to approximately half the residents and businesses that receive water service. The sewage service is also provided by the DWSD with the Macomb County Waste Water Disposal District acting as an intermediary. The Water and Sewer Fund experienced an overall 2.7 percent increase in cost of service from 2006 to 2007. In 2007, both purchased water costs and sewage disposal costs increased over 2006. In 2007, purchased water volumes increased 10.3 percent and the DWSD weighted average rate increase was 6.7 percent. The compounding of the increase in volumes and rate resulted in an overall increase in purchased water costs of 17.7 percent. The weighted average increase in the sewer rate of 13.8 percent, combined with a relatively flat .5 percent increase in sewer units disposed of, increased sewer costs by approximately 14.4 percent. The increases in water purchases and sewerage disposal were largely offset by 2007 reductions in O&M, A&G, and interest expense. O&M decreased compared to 2006 in part because 2006 O&M included a significant repair to a major sewer line at M53 and 22 Mile Road and in part due to the effectiveness of cost controls. The reduction in 2007 A&G expense as compared to 2006 was also the result of effective cost controls. Interest expense declined in 2007 due to scheduled reductions in bond principal and the refinancing of the 1999 bond issue related to the acquisition and construction of the Water and Sewer Fund's DPW building. Generally, the rates charged by the Water and Sewer Fund for water and sewer services are increased at the same level of rate increase received by the Township from the DWSD. In addition, Water and Sewer Fund rate changes are effective with billings after July 31. However, in 2007, the Water and Sewer Fund commenced a comprehensive study of its rate-setting process and rate design alternatives which will yield the most fair and equitable rates while maintaining financial stability and water and sewer system reliability, safety, and integrity. Changes to the Water and Sewer Fund's rates have been held in abeyance until completion of the study and board approval of the final rate design recommendation. As a result, the Water and Sewer Fund's retail water and sewer rates have not been increased since August 1, 2006. During fiscal year 2007, the water and sewer system saw a 9.6 percent increase in the volume of water sold. In 2007, there was a 4.6 percent increase in sewage volumes treated/sold. During 2007, the number of water and sewer users increased 1.3 percent and 2.3 percent, respectively, over the prior year. The volume increase in water units sold was largely due to weather rather than growth in the customer base. The increase in both water and sewer revenues was due largely to increased volumes sold/processed, since there was no 2007 rate increase.

In 2003, the Township began an \$8,000,000 Water and Sewer bond-funded construction project that connects isolated sections of the system to improve system service and efficiency. In 2007, the last of these projects, the expansion of the sewer system along 23 Mile Road, was completed and went into service. No new significant construction projects were initiated or commenced in 2007.

Charter Township of Shelby

Management's Discussion and Analysis (Continued)

The Township's Funds

Our analysis of the Township's major funds begins on page 14, following the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the Township as a whole. The Township board creates funds to help manage money for specific purposes as well as to show accountability for certain activities. The Township's major funds for 2007 include the General Fund, the Police Fund, and the Fire Fund.

General Fund Budgetary Highlights

Over the course of the year, the Township board and administration monitor and amend the budget to take into account unanticipated events that occur during fiscal year 2007 and acceleration of multiyear capital projects. The most significant influences on the revenue budget during fiscal year 2007 was a decrease in anticipated state-shared revenue with the constitutional portion decreasing by 1.25 percent and the statutory portion decreasing 3.1 percent. This revenue decrease can be attributed to a statewide downturn in the economy. The Township also experienced a 4.4 percent decrease in fines and forfeitures and a reduction in building permits of 23 percent that reflect economic conditions as well. Even with the fluctuations in this component of General Fund revenues, the Township completed the year with a favorable variance of approximately \$818,000 between budgeted and actual revenues and a favorable expenditure budget variance of approximately \$784,000, primarily due to timing shifts in infrastructure and other capital projects, and reductions in healthcare costs achieved during contract negotiations.

Capital Assets and Debt Administration

At the end of fiscal year 2007, the Township's governmental and business activities combined had approximately \$212.7 million in historical cost invested in a wide range of capital assets, including land, buildings, fire equipment, computer equipment, water and sewer lines, and library books. These capital assets include Township infrastructure that include roads and bridges in which it has invested since 1980. The infrastructure represents a usage right to these assets. The value of the infrastructure assets for governmental funds, net of accumulated depreciation contained in this report, is \$14.8 million and \$12.3 million for fiscal years 2007 and 2006, respectively. The Enterprise Funds' infrastructure for 2007 and 2006 (including construction in progress), net of depreciation, is \$104.5 million and \$105.5 million, respectively (see Note 3 for additional information). Additionally, the value of buildings and improvements for the governmental activities, net of accumulated depreciation, is \$8.7 million and \$9.4 million for fiscal years 2007 and 2006, respectively. The Enterprise Funds' buildings and improvements, net of accumulated depreciation, are \$13.0 million and \$13.3 million for 2007 and 2006, respectively.

Debt reported in these financial statements is related to the construction of the above-mentioned buildings and infrastructure and is reported as a liability on the statement of net assets (see Note 6 for additional information).

Charter Township of Shelby

Management's Discussion and Analysis (Continued)

Economic Factors and Next Year's Budgets and Rates

Shelby Township held its property tax millage rate in 2007 at 9.2999. These are the lowest millage rates since 1974. Strong expenditure controls and past growth in the Township's tax base have prevented millage rate increases for operations. Property taxes make up approximately 21.1 percent of the General Fund budget. Annual new growth and development in the Township have increased taxable value for all properties from \$3.324 billion to \$3.503 billion and are expected to be somewhat flat in the near future, then continue at a somewhat slower, but steadier rate for the next few years. The growth in Township property tax from new development will help offset the fluctuations and uncertainty in state revenue sharing, which represents approximately 31 percent of the General Fund budget. The General Fund budget is prepared on the assumption that state-shared revenue is unlikely to increase due to state cutbacks and less sales tax receipts at the state level.

On the expense side, the Township continues to operate with relatively low personnel costs and an efficient labor force. Our General Employee Pension Fund is fully funded. Our Police and Fire Pension Fund is funded at a level above the annual actuarial recommendation. Although pension fund contributions are affected by the fluctuations in the stock and bond market and these fluctuations may require additional funding in the future, in 2002, the Township restructured its property tax component to provide additional funding for the Police and Fire Pension Fund. This fund's millage rate increased from .5 to 1, which was accomplished by changing the Police Fund millage to ad valorem from special assessment. The restructuring of the millage components doubled property tax revenue to the Pension Fund. The reduction in the Police Fund property tax rate is offset by increased revenues through growth and personal property tax collections. The Township board aggressively pursues a permanent solution to pension and healthcare funding to spare future taxpayers the cost of funding present benefits. Through labor negotiations, the Township implemented changes in certain healthcare cost components that are anticipated to result in significant healthcare cost savings. The savings will offset the overall increase in insurance rates of 10 percent. The Township General Fund anticipates a 14.3 percent reduction in all costs between actual year 2007 and budgeted year 2008. The Township is able to maintain lower cost growth by making difficult choices on capital projects and staffing. In 2007, because of the pedestrian bridges and campus infrastructure project, expenditures exceeded operating revenues by \$2 million. Going forward, the board will adjust expenses to mirror the revenue base, having as a goal the continuation of the trend of excess revenues over expenses experienced since 1992 while maintaining reserve balances at a minimum of three months' operating cost.

The Township enjoys a strong bond rating of Aa3 from Moody's and AA from S&P on its latest General Obligation Limited Tax Debt Bond issue. The Water and Sewer revenue bond is rated A1 by Moody's and AA- by S&P. This, of course, reduces the interest rate costs when seeking financing in the bond market and gives the Township flexibility in planning for its many capital projects.

Charter Township of Shelby

Management's Discussion and Analysis (Continued)

Contacting the Township's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Township's finances and to show the Township's accountability for the money it receives. If you have any questions about this report or need additional information, we invite you to contact the Shelby Township finance department.

Charter Township of Shelby

Statement of Net Assets December 31, 2007

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and investments (Note 2)	\$ 47,355,066	\$ 40,490,478	\$ 87,845,544
Receivables:			
Property taxes receivable	32,778,570	-	32,778,570
Special assessments receivable	-	488,757	488,757
Customers	-	5,685,676	5,685,676
Accrued interest receivable - Special assessments	-	8,330	8,330
Other receivables	511,172	111,452	622,624
Due from other governmental units	1,955,093	-	1,955,093
Allowance for doubtful accounts	(393,921)	-	(393,921)
Internal balances	654,344	(654,344)	-
Inventories	-	191,968	191,968
Prepaid costs and other assets	860,525	223,477	1,084,002
Restricted assets (Note 7)	-	2,812,998	2,812,998
Capital assets:			
Assets not subject to depreciation (Note 3)	11,636,783	2,010,445	13,647,228
Assets subject to depreciation - Net (Note 3)	28,304,761	117,211,263	145,516,024
Total assets	123,662,393	168,580,500	292,242,893
Liabilities			
Accounts payable	763,753	1,572,947	2,336,700
Accrued and other liabilities	1,050,899	2,021,131	3,072,030
Unearned revenue (Note 5)	32,592,919	-	32,592,919
Payable from restricted assets (Note 7)	-	292,500	292,500
Noncurrent liabilities (Note 6):			
Due within one year:			
Compensated absences	134,367	35,270	169,637
Current portion of long-term debt	-	1,787,313	1,787,313
Due in more than one year:			
Compensated absences	778,306	69,030	847,336
Net pension obligation	60,875	-	60,875
Unearned revenue	-	1,481,896	1,481,896
Long-term debt - Net of current portion	-	28,279,862	28,279,862
Total liabilities	35,381,119	35,539,949	70,921,068
Net Assets			
Invested in capital assets - Net of related debt	39,941,544	89,154,533	129,096,077
Restricted for:			
Bond covenants (Note 7)	-	2,520,498	2,520,498
Special assessments (Note 6)	-	1,118,554	1,118,554
Police and fire	30,906,610	-	30,906,610
Street lighting	160,129	-	160,129
Grants	12,246	-	12,246
Forfeitures	297,247	-	297,247
Emergency response	117,945	-	117,945
Unrestricted	16,845,553	40,246,966	57,092,519
Total net assets	\$ 88,281,274	\$ 133,040,551	\$ 221,321,825

The Notes to Financial Statements are an
Integral Part of this Statement.

Charter Township of Shelby

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Primary government:			Capital Grants and Contributions
Governmental activities:			
General government	\$ 7,719,066	\$ 2,392,931	\$ 591,462
Public safety	24,595,731	2,042,247	95,947
Public works	1,819,889	342,517	-
Recreation and culture	3,851,987	368,980	6,913
41A District Court	2,073,532	2,503,812	45,724
Total governmental activities	40,060,205	7,650,487	740,046
Business-type activities:			
Water and sewer	18,531,205	18,447,006	-
Shelby Manor Senior Housing	1,444,772	1,606,958	-
Total business-type activities	19,975,977	20,053,964	-
Total primary government	\$ 60,036,182	\$ 27,704,451	\$ 740,046
General revenues:			
Property taxes			
State-shared revenue			
Unrestricted investment income			
Cable franchise fees			
Other			
Total general revenues			
Transfers			
Change in Net Assets			
Net Assets - Beginning of year			
Net Assets - End of year			

Statement of Activities
Year Ended December 31, 2007

Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (4,497,475)	\$ -	\$ (4,497,475)
(22,457,537)	-	(22,457,537)
(1,477,372)	-	(1,477,372)
(3,476,094)	-	(3,476,094)
476,004	-	476,004
(31,432,474)	-	(31,432,474)
-	1,273,273	1,273,273
-	162,186	162,186
-	1,435,459	1,435,459
(31,432,474)	1,435,459	(29,997,015)
30,839,916	-	30,839,916
5,030,769	-	5,030,769
2,921,718	2,157,344	5,079,062
793,234	-	793,234
787,784	-	787,784
40,373,421	2,157,344	42,530,765
120,591	(120,591)	-
9,061,538	3,472,212	12,533,750
79,219,736	129,568,339	208,788,075
\$ 88,281,274	\$ 133,040,551	\$ 221,321,825

Charter Township of Shelby

Governmental Funds Balance Sheet December 31, 2007

	General Fund	Fire Fund	Police Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets					
Cash and investments (Note 2)	\$ 6,459,095	\$ 10,859,926	\$ 10,340,660	\$ 19,695,385	\$ 47,355,066
Receivables:					
Taxes	3,533,834	13,833,379	15,411,357	-	32,778,570
Allowance for doubtful accounts	(43,038)	(192,460)	(158,423)	-	(393,921)
Other receivables	60,270	183,282	9,570	258,050	511,172
Due from other governmental units	957,286	-	-	118,397	1,075,683
Due from other funds (Note 4)	110,863	-	-	673,000	783,863
Prepaid costs and other assets	184,617	144,032	190,346	341,530	860,525
Total assets	\$ 11,262,927	\$ 24,828,159	\$ 25,793,510	\$ 21,086,362	\$ 82,970,958
Liabilities and Fund Balances					
Liabilities					
Vouchers payable	\$ 178,869	\$ 144,701	\$ 198,544	\$ 241,639	\$ 763,753
Due to other funds (Note 4)	18,589	67	-	110,863	129,519
Accrued and other liabilities	154,988	311,820	578,467	5,624	1,050,899
Deferred revenue (Note 5)	3,626,441	13,640,919	15,325,559	98,818	32,691,737
Total liabilities	3,978,887	14,097,507	16,102,570	456,944	34,635,908
Fund Balances					
Reserved for:					
Prepaid expenses	184,617	144,032	190,346	341,530	860,525
Public safety expenditures	-	-	-	9,941,450	9,941,450
Unreserved, reported in:					
General Fund:					
Designated (Note 9)	5,439,143	-	-	-	5,439,143
Undesignated	1,660,280	-	-	-	1,660,280
Special Revenue Funds:					
Designated (Note 9)	-	194,858	317,989	50,000	562,847
Undesignated	-	10,391,762	9,182,605	3,787,573	23,361,940
Capital Projects Funds -					
Designated (Note 9)	-	-	-	6,508,865	6,508,865
Total fund balances	7,284,040	10,730,652	9,690,940	20,629,418	48,335,050
Total liabilities and fund balances	\$ 11,262,927	\$ 24,828,159	\$ 25,793,510	\$ 21,086,362	\$ 82,970,958

Charter Township of Shelby

Governmental Funds **Reconciliation of the Balance Sheet to the Statement of Net Assets** **Year Ended December 31, 2007**

Fund Balance Reported in Governmental Funds	\$	48,335,050
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and are not reported in the funds		39,941,544
Grants and other receivables that are collected after year end, such that they are not available to pay bills outstanding as of year end, are not recognized in the funds		978,228
Employee compensated absences are payable over a long period of years and do not represent a claim on current financial resources; therefore, they are not reported as fund liabilities		(912,673)
Other long-term liabilities, such as net pension obligations, do not present a claim on current financial resources and are not reported as fund liabilities		(60,875)
Net Assets of Governmental Activities	\$	<u>88,281,274</u>

Charter Township of Shelby

Governmental Funds

Statement of Revenue, Expenditures, and Changes in Fund Balances

Year Ended December 31, 2007

	General Fund	Fire Fund	Police Fund	Nonmajor Governmental Funds	Total
Revenue					
Property taxes	\$ 3,324,385	\$ 12,987,732	\$ 14,527,799	\$ -	\$ 30,839,916
Licenses and permits	1,013,391	-	-	-	1,013,391
Federal grants	-	-	20,798	253,401	274,199
State-shared revenue and grants	5,027,238	-	57,073	101,372	5,185,683
Other local donations and grants	627,881	-	2,000	2,215	632,096
Charges for services	991,116	1,311,451	693,718	280,827	3,277,112
Interfund administrative charges	658,450	-	-	-	658,450
Fines and forfeitures	2,597,391	-	-	46,240	2,643,631
Interest	1,594,045	620,797	630,546	76,330	2,921,718
Other revenue	663,248	25,391	74,702	817,677	1,581,018
Total revenue	16,497,145	14,945,371	16,006,636	1,578,062	49,027,214
Expenditures					
General government	7,300,285	-	-	5,053	7,305,338
41A District Court	-	-	-	2,069,208	2,069,208
Public safety	25,000	10,684,409	13,200,711	142,041	24,052,161
Public works	883,098	-	-	365,331	1,248,429
Recreation and culture	2,930,425	-	-	603,015	3,533,440
Capital outlay	1,368,379	118,008	262,070	2,282,552	4,031,009
Total expenditures	12,507,187	10,802,417	13,462,781	5,467,200	42,239,585
Excess of Revenue Over (Under) Expenditures	3,989,958	4,142,954	2,543,855	(3,889,138)	6,787,629
Other Financing Sources (Uses)					
Transfers in (Note 4)	4,790	-	32,756	8,567,538	8,605,084
Transfers out (Note 4)	(6,024,533)	(952,706)	(1,376,055)	(131,199)	(8,484,493)
Total other financing sources (uses)	(6,019,743)	(952,706)	(1,343,299)	8,436,339	120,591
Net Change in Fund Balances	(2,029,785)	3,190,248	1,200,556	4,547,201	6,908,220
Fund Balances - Beginning of year	9,313,825	7,540,404	8,490,384	16,082,217	41,426,830
Fund Balances - End of year	\$ 7,284,040	\$ 10,730,652	\$ 9,690,940	\$ 20,629,418	\$ 48,335,050

Charter Township of Shelby

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended December 31, 2007

Net Change in Fund Balances - Total Governmental Funds	\$	6,908,220
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; however, in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Capital outlay	3,988,508
Depreciation expense	(1,821,420)

Revenues are recorded in the statement of activities when earned; they are not reported in the funds until collected or collectible within 60 days of year end	(26,062)
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Increase in accumulated employee sick and vacation pay and other similar expenses reported in the statement of activities do not require the use of current resources, and therefore are not reported in the fund statements until they come due for payment	(76,226)
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Changes in other liabilities, such as net pension obligations, reported in the statement of activities do not require the use of current resources, and therefore are not reported in the fund statements	88,518
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Change in Net Assets of Governmental Activities	\$	<u>9,061,538</u>
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Charter Township of Shelby

Proprietary Funds - Enterprise Funds Statement of Net Assets December 31, 2007

	Business-type Activities		
	Major Fund - Water and Sewer	Major Fund - Shelby Manor	Total
Assets			
Current assets:			
Cash and investments (Note 2)	\$ 39,875,145	\$ 615,333	\$ 40,490,478
Receivables:			
Special assessments	170,062	-	170,062
Customers	5,685,676	-	5,685,676
Accrued interest receivable	8,330	-	8,330
Other receivables	111,452	-	111,452
Due from other funds (Note 4)	18,656	-	18,656
Inventories	191,968	-	191,968
Prepaid costs and other assets	221,730	1,747	223,477
Total current assets	46,283,019	617,080	46,900,099
Noncurrent assets:			
Restricted assets (Note 7)	2,812,998	-	2,812,998
Special assessment receivables - Net of current portion	318,695	-	318,695
Capital assets:			
Assets not subject to depreciation - Net (Note 3)	690,445	1,320,000	2,010,445
Assets subject to depreciation (Note 3)	107,823,907	9,387,356	117,211,263
Total noncurrent assets	111,646,045	10,707,356	122,353,401
Total assets	157,929,064	11,324,436	169,253,500
Liabilities			
Current liabilities:			
Vouchers payable	1,540,126	32,821	1,572,947
Due to other funds (Note 4)	673,000	-	673,000
Accrued and other liabilities	1,845,972	175,159	2,021,131
Payable from restricted assets (Note 7)	292,500	-	292,500
Compensated absences (Note 6)	35,270	-	35,270
Current portion of long-term debt (Note 6)	1,237,313	550,000	1,787,313
Total current liabilities	5,624,181	757,980	6,382,161
Noncurrent liabilities:			
Compensated absences (Note 6)	69,030	-	69,030
Unearned revenue	1,481,896	-	1,481,896
Long-term debt - Net of current portion (Note 6)	21,169,862	7,110,000	28,279,862
Total noncurrent liabilities	22,720,788	7,110,000	29,830,788
Total liabilities	28,344,969	7,867,980	36,212,949
Net Assets			
Invested in capital assets - Net of related debt	86,107,177	3,047,356	89,154,533
Restricted:			
Revenue and bond reserves (Note 7)	2,520,498	-	2,520,498
Special assessment debt repayment (Note 6)	1,118,554	-	1,118,554
Unrestricted	39,837,866	409,100	40,246,966
Total net assets	\$ 129,584,095	\$ 3,456,456	\$ 133,040,551

Charter Township of Shelby

Proprietary Funds - Enterprise Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended December 31, 2007

	Business-type Activities		
	Major Fund - Water and Sewer	Major Fund - Shelby Manor	Total
Operating Revenue			
Charges for sales and service	\$ 18,380,924	\$ -	\$ 18,380,924
Rental income	-	1,568,440	1,568,440
Other miscellaneous revenues	66,082	38,518	104,600
Total operating revenue	18,447,006	1,606,958	20,053,964
Operating Expenses			
Cost of water and sewage disposal	10,926,431	-	10,926,431
Other operation and maintenance	3,157,717	605,656	3,763,373
General and administrative	82,823	200,000	282,823
Depreciation	3,201,312	244,633	3,445,945
Total operating expenses	17,368,283	1,050,289	18,418,572
Operating Income	1,078,723	556,669	1,635,392
Nonoperating Revenue (Expense)			
Investment income	2,110,924	46,420	2,157,344
Interest expense	(1,162,922)	(394,483)	(1,557,405)
Income - Before contributions	2,026,725	208,606	2,235,331
Capital Contributions			
Lines constructed by developers	471,435	-	471,435
Capital charges and front foot assessments	886,037	-	886,037
Total capital contributions	1,357,472	-	1,357,472
Transfers to Other Funds (Note 4)	(120,591)	-	(120,591)
Change in Net Assets	3,263,606	208,606	3,472,212
Net Assets - Beginning of year	126,320,489	3,247,850	129,568,339
Net Assets - End of year	\$ 129,584,095	\$ 3,456,456	\$ 133,040,551

Charter Township of Shelby

Proprietary Funds - Enterprise Funds Statement of Cash Flows Year Ended December 31, 2007

	Business-type Activities		
	Major Fund - Water and Sewer	Major Fund - Shelby Manor	Total
Cash Flows from Operating Activities			
Receipts from customers	\$ 16,582,320	\$ 1,568,440	\$ 18,150,760
Payments to suppliers	(12,244,999)	(789,780)	(13,034,779)
Payments to employees	(2,504,853)	-	(2,504,853)
Other receipts	66,082	38,518	104,600
Net cash provided by operating activities	1,898,550	817,178	2,715,728
Cash Flows from Noncapital Financing Activities - Transfers to other funds	(120,591)	-	(120,591)
Cash Flows from Capital and Related Financing Activities			
Special assessment collections	285,670	-	285,670
Purchase of capital assets	(1,315,935)	-	(1,315,935)
Principal and interest paid on capital debt	(2,421,671)	(949,483)	(3,371,154)
Collection of capital charges and front foot assessments	886,037	-	886,037
Net cash used in capital and related financing activities	(2,565,899)	(949,483)	(3,515,382)
Cash Flows from Investment Activities			
Interest received on investments	2,110,924	46,420	2,157,344
Purchase of investment securities	(37,535,689)	-	(37,535,689)
Proceeds from sale and maturities of investment securities	30,726,765	-	30,726,765
Net cash provided by (used in) investing activities	(4,698,000)	46,420	(4,651,580)
Net Decrease in Cash and Cash Equivalents	(5,485,940)	(85,885)	(5,571,825)
Cash and Cash Equivalents - Beginning of year	35,148,675	701,218	35,849,893
Cash and Cash Equivalents - End of year	<u>\$ 29,662,735</u>	<u>\$ 615,333</u>	<u>\$ 30,278,068</u>
Balance Sheet Classification of Cash and Cash Equivalents			
Cash and investments	\$ 39,875,145	\$ 615,333	\$ 40,490,478
Restricted assets (Note 7)	2,812,998	-	2,812,998
Less amounts classified as investments	(13,025,408)	-	(13,025,408)
Total cash and cash equivalents	<u>\$ 29,662,735</u>	<u>\$ 615,333</u>	<u>\$ 30,278,068</u>
Reconciliation of Operating Income to Net Cash from Operating Activities			
Operating income	\$ 1,078,723	\$ 556,669	\$ 1,635,392
Adjustments to reconcile operating income to net cash from operating activities:			
Depreciation and amortization	3,201,312	244,633	3,445,945
Changes in assets and liabilities:			
Receivables	(1,798,604)	-	(1,798,604)
Prepaid and other assets	35,236	561	35,797
Accounts payable	(329,115)	11,999	(317,116)
Due to other funds	110,808	-	110,808
Accrued and other liabilities	(369,322)	3,316	(366,006)
Unearned revenue	(30,488)	-	(30,488)
Net cash provided by operating activities	<u>\$ 1,898,550</u>	<u>\$ 817,178</u>	<u>\$ 2,715,728</u>

Noncash Investing, Capital, and Related Financing Activities - During the year ended December 31, 2007, developers constructed water and sewer lines with an estimated value of \$471,000 and donated them to the Township Water and Sewer Fund.

Charter Township of Shelby

Fiduciary Funds Statement of Fiduciary Net Assets December 31, 2007

	Police and Fire Retirement System Trust Fund	Agency Funds
Assets		
Cash and cash equivalents (Note 2)	\$ 3,382,124	\$ 15,332,568
Investments (Note 2):		
Common stock	19,229,611	-
Short-term funds	764,703	-
Collective index and mutual funds	24,145,144	-
Receivables	-	2,383
Deposits and prepaid benefits	313,709	25,296
	<u>47,835,291</u>	<u>\$ 15,360,247</u>
Liabilities		
Vouchers payable	35,547	\$ 130,483
Deposits	-	1,125,409
Accrued and other liabilities	-	23,712
Advance tax collections	-	14,080,643
	<u>35,547</u>	<u>\$ 15,360,247</u>
Net Assets Held in Trust for Pension and Other Employee Benefits	<u><u>\$ 47,799,744</u></u>	

Charter Township of Shelby

Fiduciary Funds **Statement of Changes in Fiduciary Net Assets** **Year Ended December 31, 2007**

Additions

Investment income:	
Interest and dividends	\$ 618,684
Net realized and unrealized gain on investments	2,460,834
Less investment-related expenses	<u>(236,698)</u>
Net investment income	2,842,820
Contributions:	
Employer	3,515,092
Employee	<u>580,685</u>
Total contributions	<u>4,095,777</u>
Total additions	6,938,597

Deductions

Benefit payments	3,614,165
Administrative expenses	<u>89,311</u>
Total deductions	<u>3,703,476</u>

Net Increase in Net Assets Held in Trust	3,235,121
Net Assets Held in Trust for Pension Benefits - Beginning of year	<u>44,564,623</u>
Net Assets Held in Trust for Pension Benefits - End of year	<u><u>\$ 47,799,744</u></u>

Charter Township of Shelby

Notes to Financial Statements December 31, 2007

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the Charter Township of Shelby (the "Township") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Township:

Reporting Entity

The Township was organized on November 20, 1978 under the provisions of Act 359 of P.A. 1947, as amended (Charter Township Act). The Township is governed by an elected seven-member board of trustees composed of the supervisor, clerk, treasurer, and four other trustees. The Township provides the following services as authorized by its charter: public safety (police and fire), highways and streets, sanitation, water and sewer, culture, recreation, public improvements, planning and zoning, and general administrative services.

Blended Component Units - The following component units are reported as if they were parts of the primary government in the financial statements:

- a. The Police and Fire Retirement System (the "System") has been blended into the Township's financial statements. The System is governed by a five-member pension board, which includes the treasurer of the Township's board, two members elected individually by the police officers and firefighters, and two members appointed by the board of trustees. The System is reported as if it were part of the primary government because of the fiduciary responsibility that the Township retains relative to the operations of the retirement system.
- b. The Shelby Township Building Authority is governed by a five-member board that is appointed by the Township's board of trustees. Although it is legally separate from the Township, it is reported as if it were part of the primary government because its primary purpose is to provide certain facilities necessary for the operation of the Township's government and to finance and construct the Township's public buildings.

Discretely Presented Component Units - The Shelby Township Downtown Development Authority is governed by a board that is appointed by the Township's board of trustees. The Authority's budget is subject to approval by the board of trustees. There has been no financial activity related to the Downtown Development Authority as of December 31, 2007.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

Note I - Summary of Significant Accounting Policies (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or activity. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, and the latter are excluded from the government-wide financial statements. Major individual governmental funds and the major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the full accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: property taxes, state-shared revenue, and interest associated with the current fiscal period. All other revenue items are considered to be available only when cash is received by the Township. Conversely, special assessments and federal grant reimbursements will be collected after the period of availability; receivables have been recorded for these, along with a "deferred revenue" liability.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Charter Township of Shelby

Notes to Financial Statements December 31, 2007

Note 1 - Summary of Significant Accounting Policies (Continued)

The Township reports the following major governmental funds:

- The General Fund is the Township's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The Fire Special Revenue Fund accounts for all of the activities of the Township's fire department, except for the purchase of equipment.
- The Police Special Revenue Fund accounts for all of the activities of the Township's police department, except for the purchase of equipment.

The Township reports the following major proprietary funds:

- The Water and Sewer Fund accounts for the activities of the water distribution system and sewage collection system.
- The Shelby Manor Senior Housing Fund accounts for the activities of the Township's senior housing apartment complex.

Additionally, the Township reports the following fiduciary funds:

Police and Fire Retirement System Trust Fund - The Police and Fire Retirement System Trust Fund accounts for the activities of the police and fire employees' retirement system, which accumulates resources for pension benefit payments to qualified employees and for medical benefits provided to employees during retirement.

Agency Funds - The Agency Funds account for assets held by the Township in a trustee capacity or as an agent for individuals, organizations, and other governments.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The Township has elected not to follow private sector standards issued after November 30, 1989 for its business-type activity.

As a general rule, the effect of interfund activity and the General Fund reimbursement for administrative expenses have been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the Township's water and sewer function and various other functions of the Township. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Charter Township of Shelby

Notes to Financial Statements December 31, 2007

Note 1 - Summary of Significant Accounting Policies (Continued)

Proprietary funds distinguish operating revenue and expenses from nonoperating items. The principal operating revenue of the proprietary funds relates to charges to customers for sales and services. The Water and Sewer Fund also recognizes the portion of capital charges intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for the proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Property Tax Revenue

Properties are assessed as of December 31. The related property taxes become a lien and are billed on December 1 of the following year. These taxes are due on February 28 with the final collection date of March 1 before they are added to the county tax rolls. Property taxes billed during the month of December will be used to finance the following year's operations. As such, these taxes are recorded as deferred revenue in each respective fund at December 31.

The 2006 taxable valuation of the Township totaled approximately \$3,312,000,000, on which ad valorem taxes levied consisted of 1.0000 mills for the Township's operating purposes, 3.8624 mills for police protection, 3.4375 mills for fire operating purposes, and 1.0000 mills for police and fire pension. The ad valorem taxes raised approximately \$3,312,000 for general operations, \$12,792,000 for police protection, \$11,385,000 for fire operations, and \$3,312,000 for police and fire pension. These amounts are recorded in their respective funds as tax revenue.

Assets, Liabilities, and Net Assets or Equity

Cash and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less as of December 31, 2007. Investments are stated at fair value.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." All customer and property tax receivables are shown as net of allowance for uncollectible amounts.

Charter Township of Shelby

Notes to Financial Statements December 31, 2007

Note I - Summary of Significant Accounting Policies (Continued)

Inventories and Prepaid Costs - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid costs in both government-wide and fund financial statements.

Restricted Assets - The revenue bonds of the Enterprise Fund require amounts to be set aside for debt service principal and interest, operations and maintenance, and a bond reserve. These amounts have been classified as restricted assets.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., amounts paid to the Road Commission for the intangible right to use the roads), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the Township as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Infrastructure	20-35 years
Water system	50 years
Sewer systems	50 years
Buildings and improvements	20-50 years
Machinery equipment	5-20 years
Vehicles	8 years
Furniture and fixtures	5-20 years
Library books	8 years

Compensated Absences - The Township allows employees to accumulate earned but unused sick and vacation pay benefits. The government-wide and proprietary statements accrue all vacation and personal pay as it is earned, and sick pay as it is used or vested (whichever is earlier). A liability for these amounts is reported in governmental funds as it comes due for payment (when the time is taken off or employees terminate).

Charter Township of Shelby

Notes to Financial Statements December 31, 2007

Note 1 - Summary of Significant Accounting Policies (Continued)

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change. When an expense has been incurred for purposes for which both restricted and unrestricted net assets are available, the Township's policy is to first apply restricted resources.

Construction Code Act - The Township tracks the results of building department operation in the General Fund in accordance with Michigan Public Act 245 of 1999. The Township is required to maintain an accounting system that separately accumulates revenues and expenditures related to the building department function. As required under the provision of the Act, the Township adopted this accounting treatment effective January 1, 2000. A summary of the activity since January 1, 2000 is as follows:

Cumulative expenditures over revenue - January 1, 2007		\$ (661,558)
2007 building department activity:		
Permit revenue	\$ 1,011,059	
Expenditures	<u>1,416,658</u>	
Excess of expenditures over revenue		<u>(405,599)</u>
Cumulative expenditures over revenue - December 31, 2007		<u>\$ (1,067,157)</u>

Charter Township of Shelby

Notes to Financial Statements December 31, 2007

Note 2 - Cash and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The pension trust fund is also authorized by Michigan Public Act 314 of 1965, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate (if the trust fund's assets exceed \$250 million), debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

The Township has designated 19 banks for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in all investments allowed by state statutory authority as listed above. The Township's deposits and investment policies are in accordance with statutory authority.

The Township's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the Township's deposits may not be returned to it. The Township does not have a deposit policy for custodial credit risk. At year end, the Township had \$43,575,689 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The Township believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Township evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Charter Township of Shelby

Notes to Financial Statements December 31, 2007

Note 2 - Cash and Investments (Continued)

Interest Rate Risk - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Township's investment policy restricts investment maturities to less than one year unless the maturity is matched to a specific cash flow according to the policy. Commercial paper is restricted to purchases with a 270-day maturity. At year end, the average maturities of investments are as follows:

	<u>Fair Value</u>	<u>Weighted Average Maturity</u>
Non-2a7 like bank investment pool	\$ 4,732,516	117 days
Agency bonds	15,016,220	72 days
Commercial paper	14,486,498	61 days
U.S. Treasury securities	4,201,906	43 days
Fixed Income Collective Index Fund (Pension Trust)	436,424	Less than 1 year
Fixed Income Collective Index Fund (Pension Trust)	7,238,621	1-5 years
Fixed Income Collective Index Fund (Pension Trust)	7,374,063	5-10 years

Credit Risk - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Township has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Organization</u>
Bank investment pool	\$ 7,163,327	AAA	S&P
	15,264,940	Not Rated	
Commercial paper	14,486,498	AI	S&P
Agency bonds	15,016,222	AAA	S&P
Short-term investment fund (Pension Trust)	764,703	AI	S&P
Fixed Income Collective Index Fund (Pension Trust)	15,049,108	AAI	S&P
Equity Collective Index Fund (Pension Trust)	9,067,422	Not Rated	

Concentration of Credit Risk - The Township limits the amount the Township may invest in any one issuer to 50 percent of the Township's total portfolio. At December 31, 2007, there were no investments in a single issuer in excess of 50 percent of the Township's total portfolio. There were no individual investments greater than or equal to 5 percent of the Township's total portfolio.

Charter Township of Shelby

Notes to Financial Statements December 31, 2007

Note 3 - Capital Assets

Capital asset activity of the Township's governmental and business-type activities was as follows:

	Balance January 1, 2007	Additions	Disposals and Adjustments	Balance December 31, 2007
Governmental Activities				
Capital assets not being depreciated:				
Land	\$ 11,128,458	\$ -	\$ -	\$ 11,128,458
Financial Management Information Systems in process	-	508,325	-	508,325
Subtotal	11,128,458	508,325	-	11,636,783
Capital assets being depreciated:				
Infrastructure	16,128,597	2,858,936	-	18,987,533
Buildings and improvements	15,153,089	52,061	-	15,205,150
Vehicles	5,280,010	525,675	(15,630)	5,790,055
Library books	2,000,000	-	-	2,000,000
Machinery and equipment	5,180,984	43,511	-	5,224,495
Subtotal	43,742,680	3,480,183	(15,630)	47,207,233
Accumulated depreciation:				
Infrastructure	3,787,961	389,298	-	4,177,259
Buildings and improvements	5,790,920	685,995	-	6,476,915
Vehicles	3,384,641	415,565	(15,630)	3,784,576
Library books	1,000,000	-	-	1,000,000
Machinery and equipment	3,133,160	330,562	-	3,463,722
Subtotal	17,096,682	1,821,420	(15,630)	18,902,472
Net capital assets being depreciated	26,645,998	1,658,763	-	28,304,761
Net capital assets	\$ 37,774,456	\$ 2,167,088	\$ -	\$ 39,941,544

Charter Township of Shelby

Notes to Financial Statements December 31, 2007

Note 3 - Capital Assets (Continued)

	Balance January 1, 2007	Additions	Disposals and Adjustments	Balance December 31, 2007
Business-type Activities				
Capital assets not being depreciated:				
Land	\$ 1,525,441	\$ -	\$ -	\$ 1,525,441
Construction in progress	5,800,538	990,130	(6,305,664)	485,004
Subtotal	7,325,979	990,130	(6,305,664)	2,010,445
Capital assets being depreciated:				
Buildings and improvements	17,166,500	-	-	17,166,500
Vehicles	593,102	-	-	593,102
Furniture, fixtures, and equipment	645,762	71,920	-	717,682
Water systems	37,671,471	481,202	-	38,152,673
Sewer systems	88,421,195	6,824,782	-	95,245,977
Subtotal	144,498,030	7,377,904	-	151,875,934
Accumulated depreciation:				
Buildings and improvements	3,837,775	326,691	-	4,164,466
Vehicles	528,561	30,502	-	559,063
Furniture and fixtures	505,229	23,200	-	528,429
Water systems	9,330,538	1,213,818	-	10,544,356
Sewer systems	17,016,623	1,851,734	-	18,868,357
Subtotal	31,218,726	3,445,945	-	34,664,671
Net capital assets being depreciated	113,279,304	3,931,959	-	117,211,263
Net capital assets	\$ 120,605,283	\$ 4,922,089	\$ (6,305,664)	\$ 119,221,708

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:

General government	\$ 337,502
Public safety	632,088
Public works	571,460
Recreation and culture	276,046
41A District Court	4,324
Total governmental activities	\$ 1,821,420

Business-type activities:

Water and sewer	\$ 3,201,312
Shelby Manor	244,633
Total business-type activities	\$ 3,445,945

Charter Township of Shelby

Notes to Financial Statements December 31, 2007

Note 4 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
Due to/from Other Funds		
General Fund	Nonmajor governmental fund	\$ 110,863
Water and Sewer Fund	General Fund	18,589
	Fire Special Revenue Fund	<u>67</u>
	Total Water and Sewer Fund	18,656
Nonmajor governmental fund	Water and Sewer Fund	<u>673,000</u>
	Total	<u>\$ 802,519</u>

Interfund balances represent routine and temporary cash flow assistance until amounts are transferred from investment accounts.

Charter Township of Shelby

Notes to Financial Statements December 31, 2007

Note 4 - Interfund Receivables, Payables, and Transfers (Continued)

Transfers provided funding for capital projects, capital acquisitions, postemployment benefits, and debt service. Interfund transfers reported in the fund financial statements are comprised of the following:

<u>Fund Transferred From</u>	<u>Fund Transferred To</u>	<u>Amount</u>
General Fund	Nonmajor governmental funds	\$ 5,991,777
	Police Special Revenue Fund	32,756
	Total General Fund	6,024,533
Fire Fund	Nonmajor governmental funds	952,706
Police Fund	Nonmajor governmental funds	1,376,055
Nonmajor governmental funds	General Fund	2,199
	Nonmajor governmental funds	129,000
	Total nonmajor governmental funds	131,199
Water and Sewer Fund	General Fund	2,591
	Nonmajor governmental funds	118,000
	Total Water and Sewer Fund	120,591
	Total	\$ 8,605,084

Note 5 - Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned.

At the end of the current fiscal year, the various components of deferred revenue of the governmental funds are as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Special assessments received after period of availability	\$ 98,818	\$ -
Property taxes	-	32,592,919
Total	\$ 98,818	\$ 32,592,919

Charter Township of Shelby

Notes to Financial Statements December 31, 2007

Note 5 - Deferred Revenue (Continued)

Unearned revenue in the Water and Sewer Fund represents redeemable certificates issued to developers to be applied as payment on future capital charges.

Note 6 - Long-term Debt

The Township issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the Township. Installment purchase agreements are also general obligations of the government. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties benefited from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the Township is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a reassessment of the district) are received. At December 31, 2007, the Township has \$1,129,555 set aside in the Water and Sewer Fund for repayment of these bonds. In addition, \$488,757 of special assessments are receivable in the future; the amount of receivables delinquent at December 31, 2007 is not significant.

The Township has pledged substantially all revenue of the Water and Sewer Fund, net of operating expenses, to repay the water and sewer revenue bonds listed below. Proceeds from the bonds provided financing for the construction of water and sewer lines. The bonds are payable solely from the net revenues of the water and sewer system. The remaining principal and interest to be paid on the bonds total \$16,052,282. During the current year, net revenues of the system were \$5,895,369 compared to the annual debt requirements of \$1,083,745.

The Township has pledged all future special assessment collections of the Water and Sewer Fund to repay the water and sewer special assessment bonds listed below. Proceeds from the bonds provided financing for the construction of water and sewer lines. The remaining principal and interest to be paid on the bonds total \$1,129,555. During the current year, special assessment collections were \$285,670 compared to the annual debt requirements of \$580,928.

Charter Township of Shelby

Notes to Financial Statements December 31, 2007

Note 6 - Long-term Debt (Continued)

Business-type Activities

General obligations:

1998 W&S Limited Tax Bonds:

Amount of issue - \$580,000

Maturing through 2008

Interest rate range - 4.30% - 4.40%

Principal maturity range - \$75,000

\$ 75,000

1998 B.A. Refunding Bonds:

Amount of issue - \$11,000,000

Maturing through 2017

Interest rate range - 4.45% - 5.00%

Principal maturity range - \$460,000 - \$855,000

7,660,000

2006 B.A. Refunding Bonds:

Amount of issue - \$3,730,000

Maturing through 2024

Interest rate range - 4.00% - 5.50%

Principal maturity ranges - \$140,000 - \$300,000

3,730,000

1999 Garfield Interceptor Debt:

Amount of issue - \$5,520,000

Maturing through 2031

Interest rate range - 7.37%

Principal maturity range - \$29,000 - \$472,000

5,849,675

Subtotal

17,314,675

Special Assessment Bonds:

2001 Special Assessment Bonds:

Amount of issue - \$2,095,000

Maturing through 2008

Interest rate range - 3.90% - 5.50%

Principal maturity range - \$95,000 - \$225,000

735,000

1998 Special Assessment Bonds:

Amount of issue - \$2,580,000

Maturing through 2008

Interest rate range - 4.30% - 4.40%

Principal maturity range - \$275,000 - \$300,000

300,000

Subtotal

1,035,000

Revenue Bonds:

1999 Revenue Bonds:

Amount of issue - \$4,555,000

Maturing through 2013

Interest rate range - 3.95% - 4.40%

Principal maturity range - \$310,000 - \$460,000

2,335,000

2002 Revenue Bonds:

Amount of issue - \$2,500,000

Maturing through 2022

Interest rate range - 3.00% - 4.80%

Principal maturity range - \$50,000 - \$250,000

2,275,000

Charter Township of Shelby

Notes to Financial Statements December 31, 2007

Note 6 - Long-term Debt (Continued)

2003 Refunding Bonds:

Amount of issue - \$8,000,000

Maturing through 2022

Interest rate range - 2.25% - 4.20%

Principal maturity range - \$200,000 - \$700,000

\$ 7,400,000

Subtotal

12,010,000

Total business-type activity debt

\$ 30,359,675

Long-term debt activity can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities					
Compensated absences	\$ 836,447	\$ 76,226	\$ -	\$ 912,673	\$ 134,367
Business-type Activities					
General obligations	\$ 18,034,699	\$ -	\$ (720,024)	\$ 17,314,675	\$ 979,813
Special Assessment Bonds	1,550,000	-	(515,000)	1,035,000	515,000
Revenue Bonds	12,595,000	-	(585,000)	12,010,000	585,000
Total	\$ 32,179,699	\$ -	\$ (1,820,024)	\$ 30,359,675	\$ 2,079,813
Compensated absences	\$ 104,300	\$ -	\$ -	\$ 104,300	\$ 35,270

Annual debt service requirements to maturity for the above business-type bond and note obligations are as follows:

	Business-type Activities		
	Principal	Interest	Total
2008	\$ 2,079,813	\$ 1,468,830	\$ 3,548,643
2009	1,783,873	1,382,163	3,166,036
2010	2,012,265	1,305,140	3,317,405
2011	1,981,274	1,214,034	3,195,308
2012	2,030,948	1,123,859	3,154,807
2013-2017	9,806,720	4,299,200	14,105,920
2018-2022	7,081,000	2,271,623	9,352,623
2023-2007	2,370,066	895,494	3,265,560
2028-2031	1,213,716	170,852	1,384,568
Total	\$ 30,359,675	\$ 14,131,195	\$ 44,490,870

Charter Township of Shelby

Notes to Financial Statements December 31, 2007

Note 6 - Long-term Debt (Continued)

Advance and Current Refundings - In prior years, the Township defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust accounts' assets and liabilities for the defeased bonds are not included in the general purpose financial statements. At December 31, 2007, \$3,625,000 of bonds outstanding are considered defeased.

Subsequent to year end, the Township advance refunded \$7,660,000 of 1998 Shelby Manor debt, which resulted in a change in the debt service schedule reported above. See additional information in Note 15.

Note 7 - Restricted Assets

Restricted assets at December 31, 2007 consist of cash and cash equivalents (including bank investment pools) and are reserved in accordance with revenue bond ordinance requirements. Following is the detail of restricted assets at December 31, 2007:

Revenue bond requirements:

Operations and maintenance	\$ 1,279,673
Bond reserve	1,201,000
Debt service:	
Principal	292,500
Interest	<u>39,825</u>
Assets restricted for revenue bond requirements	2,812,998
Current liabilities payable from restricted assets	<u>292,500</u>
Net assets restricted for revenue bond ordinances	<u>\$ 2,520,498</u>

Note 8 - Risk Management

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Township has purchased commercial insurance for all claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Charter Township of Shelby

Notes to Financial Statements December 31, 2007

Note 9 - Designated Fund Balances

Fund balances have been designated for the following purposes:

	General Fund	Fire Fund Major Special Revenue Fund	Police Fund Major Special Revenue Fund	Nonmajor Special Revenue Funds	Nonmajor Capital Projects Funds
Capital improvements	\$ 900,000	\$ 194,858	\$ 317,989	\$ 50,000	\$ 6,508,865
Roads, bridges, and sidewalk improvements	4,258,599	-	-	-	-
Beautification committee	37,700	-	-	-	-
Nature center	205,633	-	-	-	-
EAC	100	-	-	-	-
Heritage garden	37,111	-	-	-	-
Total	<u>\$ 5,439,143</u>	<u>\$ 194,858</u>	<u>\$ 317,989</u>	<u>\$ 50,000</u>	<u>\$ 6,508,865</u>

Note 10 - Postemployment Benefits

The Township provides healthcare benefits and life insurance benefits to all general and court employees who retire at age 55 with 15 years of continuous full-time service or at an age of 55 or above, which, when combined with the number of years of service, is greater than or equal to 75, and to all police and fire employees retiring after 25 years of service, in accordance with labor contracts. The benefits provided cover the retired employee, as well as their spouse and any eligible dependents, and are paid in full by the Township until age 65. At age 65, the employee and spouse must apply for Medicare and the Township then supplies a complementary coverage policy to equal their prior benefits. Currently, 117 retirees are eligible. Expenditures for postemployment benefits are recognized as the insurance premiums become due; during the year, this amounted to \$1,532,199.

Upcoming Reporting Change - The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree healthcare coverage over the working life of the employee, rather than at the time the healthcare premiums are paid. The new pronouncement is effective for the year ending December 31, 2008.

Charter Township of Shelby

Notes to Financial Statements December 31, 2007

Note 11 - Retirement Plans

Defined Benefit Pension Plan

Plan Description - The Shelby Township Police and Fire Pension Plan is a single-employer defined benefit pension plan that is the administrator of a single-employer public employees' retirement plan that covers all police and fire employees of the Township. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. At December 31, 2006, the date of the most recent actuarial valuation, membership consisted of 79 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them, and 128 current active employees. The plan does not issue a separate financial report.

Contributions - Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Please refer to Note 1 for further significant accounting policies.

Plan members are required to contribute 5 percent of their annual covered salary, except for the fire chief, who contributes 1 percent, and most command officers who pay 4 percent under an expired collective bargaining agreement currently being negotiated. The Charter Township of Shelby is required to contribute at an actuarially determined rate. The obligation to contribute to and maintain the plan for these employees was established by Act No. 345 of the Public Acts of 1937, as amended, and modified by the collective bargaining agreements. Administrative costs of the plan are financed through investment earnings.

Annual Pension Cost and Net Pension Obligation

The plan's annual pension cost and net pension obligation for the current year were as follows:

Annual required contribution	\$ 3,422,222
Interest on net pension obligation	11,951
Adjustment to annual required contribution	<u>(7,599)</u>
Annual pension cost	3,426,574
Contributions made	<u>3,515,092</u>
Decrease in net pension obligation	(88,518)
Net pension obligation - Beginning of year	<u>149,393</u>
Net pension obligation - End of year	<u>\$ 60,875</u>

Charter Township of Shelby

Notes to Financial Statements December 31, 2007

Note 11 - Retirement Plans (Continued)

For the year ended December 31, 2007, the Township's contribution exceeded the annual pension cost of \$3,426,574 for the plan by \$88,518. The annual required contribution was determined as part of an actuarial valuation at December 31, 2005, using the entry age actuarial cost method. Significant actuarial assumptions used include (a) an 8 percent investment rate of return, (b) projected salary increases of 5.5 percent to 8.5 percent percent per year, (c) additional projected salary increases of 0 percent to 3 percent percent per year, attributable to seniority/merit, and (d) no postretirement benefit increases. Both (a) and (b) include an inflation component of 5.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 15 years.

Three-year Trend Information of Annual Pension Costs

	Fiscal Year Ended December 31		
	2007	2006	2005
Annual pension cost (APC)	\$ 3,426,574	\$ 3,100,990	\$ 2,989,225
Percentage of APC contributed	102.6 %	105.6 %	102.1 %
Net pension obligation	\$ 60,875	\$ 149,393	\$ 324,169

Reserves

State law requires employee contributions to be segregated and interest to be added annually. In addition, amounts must be set aside determined by the actuary to fund benefits to retirees currently approved to receive benefits. The reserves for the Police and Fire Retirement Plan are as follows:

	Reserve for Employee Contributions	Reserve for Employer Contributions	Reserved for Retiree Benefit Payments
Balance - January 1, 2007	\$ 4,884,746	\$ 3,770,856	\$ 35,909,021
Additions - Including interest	671,534	3,800,123	2,703,638
Transfers	-	306,464	(306,464)
Deductions	-	(326,009)	(3,614,165)
Balance - December 31, 2007	<u>\$ 5,556,280</u>	<u>\$ 7,551,434</u>	<u>\$ 34,692,030</u>

Charter Township of Shelby

Notes to Financial Statements December 31, 2007

Note 12 - Defined Contribution Pension Plan

The Township provides pension benefits to all of its full-time employees, except those employees covered by the Police and Fire Retirement System, through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The benefits are provided under collective bargaining agreements. The collective bargaining agreements require a contribution of 10 percent and 5 percent from the Township and employees, respectively, of the employees' base salaries each month. An employee may elect to contribute additional voluntary amounts. The Township's contributions for each employee (plus interest allocated to the employee's account) are fully vested after 60 months of continuous service.

During the year ended December 31, 2007, the Township made contributions of \$865,176 and the plan members contributed \$432,588 to the plan.

Note 13 - Future Minimum Lease Revenue

The Township leases a portion of its land to a private operator through the year 2044 for use as a golf course. During 2007, the Township recognized \$125,000 in revenue related to this lease.

Future annual minimum lease payments are as follows:

	Percent of Gross Revenue	Minimum Rent
2008-2009	3	\$ 125,000
2010-2014	4	175,000
2015-2019	4	200,000
2020-2024	4	225,000
2025-2034	5	250,000
2035-2044	7	300,000

Charter Township of Shelby

Notes to Financial Statements December 31, 2007

Note 14 - Delinquent Real Property Taxes

The Township annually sells its delinquent real property taxes to Macomb County, which then becomes responsible for collecting the taxes and taking any uncollected tax parcels through the tax reversion process. The county purchases these taxes at 100 percent of face value, and in return the county is allowed to retain all interest and penalties it collects. The estimated present value of the future delinquent collections to the Township is less than the face value that has been received, because of the time value of money; however, the net present value to Macomb County is greater than this amount, because of the statutory provision that allows the county to retain all penalties and interest. During the current year, the Township received approximately \$2,500,000 from this sale. At the end of the tax reversion process (approximately three years), the county charges the Township back for any uncollected taxes. Historically, this amount has not been significant.

Note 15 - Subsequent Events

Subsequent to year end, the Township issued \$7,325,000 in general obligation bonds with an average interest rate of 3.8 percent. The proceeds of these bond were used to advance refund \$7,660,000 of outstanding Shelby Manor general obligation bonds with an average interest rate of 4.7 percent. The net proceeds of \$7,325,000 (after payment of \$390,725 in underwriting fees, insurance, and other issuance costs) were used to defease outstanding bonds, for which new bonds were issued. The advance refunding reduced total debt service payments over the next 10 years by \$707,909, which represents an economic gain of \$599,511.

Required Supplemental Information

Charter Township of Shelby

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended December 31, 2007

	Original Budget	Amended Budget	Actual
Revenue			
Property taxes	\$ 3,300,850	\$ 3,323,967	\$ 3,324,385
Licenses and permits	1,336,000	840,900	1,013,391
State-shared revenue and grants	4,977,477	5,017,275	5,027,238
Other local donations and grants	547,457	628,057	627,881
Charges for services	1,003,881	910,739	991,116
Interfund administrative charges	456,450	456,450	658,450
Fines and forfeitures	2,697,500	2,477,865	2,597,391
Interest	700,000	1,353,050	1,594,045
Other revenue	404,130	471,271	663,248
Total revenue	15,423,745	15,479,574	16,497,145
Expenditures			
General government	8,287,073	7,698,190	7,300,285
Public safety	25,000	25,000	25,000
Public works	689,180	694,000	883,098
Recreation and culture	3,094,436	3,004,487	2,930,425
Capital outlay	2,608,495	1,871,565	1,368,379
Total expenditures	14,704,184	13,293,242	12,507,187
Excess of Revenue Over Expenditures	719,561	2,186,332	3,989,958
Other Financing Sources (Uses)			
Sale of fixed assets	500	1,175	-
Transfers in	888,900	203,900	4,790
Transfers out	(2,668,139)	(6,022,559)	(6,024,533)
Total other financing uses	(1,778,739)	(5,817,484)	(6,019,743)
Net Change in Fund Balance	(1,059,178)	(3,631,152)	(2,029,785)
Fund Balance - Beginning of year	9,313,825	9,313,825	9,313,825
Fund Balance - End of year	\$ 8,254,647	\$ 5,682,673	\$ 7,284,040

Charter Township of Shelby

Required Supplemental Information Budgetary Comparison Schedule - Major Special Revenue Funds Fire Fund Year Ended December 31, 2007

	Original Budget	Amended Budget	Actual
Revenue			
Property taxes	\$ 12,922,060	\$ 12,970,962	\$ 12,987,732
Charges for services	1,195,808	1,123,107	1,311,451
Interest	335,000	556,000	620,797
Other revenue	13,300	11,884	25,391
Total revenue	14,466,168	14,661,953	14,945,371
Expenditures			
Public safety	10,916,319	11,133,289	10,684,409
Capital outlay	3,655,540	133,814	118,008
Total expenditures	14,571,859	11,267,103	10,802,417
Excess of Revenue Over (Under) Expenditures	(105,691)	3,394,850	4,142,954
Other Financing Sources (Uses)			
Sale of fixed assets	5,000	1,000	-
Transfers out	(1,133,331)	(952,706)	(952,706)
Total other financing uses	(1,128,331)	(951,706)	(952,706)
Net Change in Fund Balance	(1,234,022)	2,443,144	3,190,248
Fund Balance - Beginning of year	7,540,404	7,540,404	7,540,404
Fund Balance - End of year	\$ 6,306,382	\$ 9,983,548	\$ 10,730,652

Charter Township of Shelby

Required Supplemental Information Budgetary Comparison Schedule - Major Special Revenue Funds Police Fund Year Ended December 31, 2007

	Original Budget	Amended Budget	Actual
Revenue			
Property taxes	\$ 14,407,725	\$ 14,516,716	\$ 14,527,799
Federal grants	1,800	25,464	20,798
State-shared revenue and grants	45,450	45,450	57,073
Other local donations	1,000	1,000	2,000
Charges for services	720,400	681,610	693,718
Interest	355,000	596,000	630,546
Other revenue	58,600	52,000	74,702
Total revenue	15,589,975	15,918,240	16,006,636
Expenditures			
Public safety	13,283,237	13,256,035	13,200,711
Capital outlay	822,575	249,340	262,070
Total expenditures	14,105,812	13,505,375	13,462,781
Excess of Revenue Over Expenditures	1,484,163	2,412,865	2,543,855
Other Financing Sources (Uses)			
Transfers in	75,000	75,000	32,756
Transfers out	(597,500)	(1,376,055)	(1,376,055)
Total other financing uses	(522,500)	(1,301,055)	(1,343,299)
Net Change in Fund Balance	961,663	1,111,810	1,200,556
Fund Balance - Beginning of year	8,490,384	8,490,384	8,490,384
Fund Balance - End of year	<u>\$ 9,452,047</u>	<u>\$ 9,602,194</u>	<u>\$ 9,690,940</u>

Charter Township of Shelby

Required Supplemental Information Police and Fire Pension System Schedule of Funding Progress Year Ended December 31, 2007

The schedule of funding progress is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
12/31/01	\$ 32,848,767	\$ 52,326,180	\$ 19,477,413	62.8	\$ 7,073,837	275.3
12/31/02	32,709,306	54,033,626	21,324,320	60.5	7,504,500	284.2
12/31/03	34,355,443	57,430,250	23,074,807	59.8	8,413,972	274.2
12/31/04	36,115,074	59,537,567	23,422,493	60.7	8,741,884	267.9
12/31/05	38,357,722	62,956,557	24,598,835	60.9	9,684,107	254.0
12/31/06	43,117,908	64,829,302	21,711,394	66.5	9,888,910	219.6

The schedule of employer contributions is as follows:

Fiscal Year Ended	Actuarial Valuation Date	Annual Required Contribution	Percentage Contributed
12/31/02	12/31/00	\$ 1,836,096	133.2
12/31/03	12/31/01	2,057,358	189.5
12/31/04	12/31/02	2,645,299	123.4
12/31/05	12/31/03	2,977,121	103.8
12/31/06	12/31/04	3,091,200	105.9
12/31/07	12/31/05	3,422,222	102.6

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of December 31, 2006, the latest actuarial valuation, follows:

Amortization method	Level percent
Amortization period (perpetual)	15 years
Asset valuation method	4-year smoothed market
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases	5.5% - 8.5%
Includes inflation at	5.5%
Cost of living adjustments	None

Charter Township of Shelby

Note to Required Supplemental Information Year Ended December 31, 2007

Budgetary Information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund and all Special Revenue Funds. The budget is amended by the board throughout the year as deemed necessary.

The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the governing body is the department level.

Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

Excess of Expenditures Over Appropriations in Budgeted Funds - The Township had the following expenditure greater than budget, due to departmental expenditures being allocated between capital outlay and public works activities:

	<u>Budget</u>	<u>Actual</u>
General Fund - Public works	\$ 694,000	\$ 883,098

Other Supplemental Information

Charter Township of Shelby

	Nonmajor Special Revenue Funds					
	Emergency Response	Street Lighting	Building Authority	41st District Court	Cable Television	Michigan Justice Training Grant
Assets						
Cash and investments	\$ 117,945	\$ 178,053	\$ 15,039	\$ -	\$ 1,093,206	\$ 12,396
Receivables - Other	-	98,818	-	-	159,232	-
Due from other funds	-	-	-	-	-	-
Prepaid costs and other assets	-	-	32	-	5,123	-
Total assets	<u>\$ 117,945</u>	<u>\$ 276,871</u>	<u>\$ 15,071</u>	<u>\$ -</u>	<u>\$1,257,561</u>	<u>\$ 12,396</u>
Liabilities and Fund Balances						
Liabilities						
Vouchers payable	\$ -	\$ 17,923	\$ -	\$ -	\$ 1,348	\$ 150
Due to other funds	-	-	-	-	-	-
Accrued and other liabilities	-	1	-	-	5,623	-
Deferred revenue	-	98,818	-	-	-	-
Total liabilities	-	116,742	-	-	6,971	150
Fund Balances						
Reserved for:						
Prepaid expenses	-	-	32	-	5,123	-
Public safety expenditures	-	-	-	-	-	-
Unreserved, reported in :						
Special Revenue Funds:						
Designated	-	-	-	-	50,000	-
Undesignated	117,945	160,129	15,039	-	1,195,467	12,246
Capital Projects Funds -						
Designated	-	-	-	-	-	-
Total fund balances	<u>117,945</u>	<u>160,129</u>	<u>15,071</u>	<u>-</u>	<u>1,250,590</u>	<u>12,246</u>
Total liabilities and fund balances	<u>\$ 117,945</u>	<u>\$ 276,871</u>	<u>\$ 15,071</u>	<u>\$ -</u>	<u>\$1,257,561</u>	<u>\$ 12,396</u>

**Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
December 31, 2007**

Nonmajor Special Revenue Funds				Nonmajor Capital Projects Funds		Total Nonmajor Governmental Funds
Community Block Grant	Federal Forfeiture	Drug Forfeiture	Postemployment Benefits	Public Improvement	Equipment Replacement	
\$ -	\$ 16,539	\$ 280,708	\$ 6,465,150	\$ 3,759,195	\$ 7,757,154	\$ 19,695,385
118,397	-	-	-	-	-	376,447
-	-	-	398,000	-	275,000	673,000
-	-	-	-	281,175	55,200	341,530
\$ 118,397	\$ 16,539	\$ 280,708	\$ 6,863,150	\$ 4,040,370	\$8,087,354	\$ 21,086,362
\$ 7,534	\$ -	\$ -	\$ -	\$ 49,364	\$ 165,320	\$ 241,639
110,863	-	-	-	-	-	110,863
-	-	-	-	-	-	5,624
-	-	-	-	-	-	98,818
118,397	-	-	-	49,364	165,320	456,944
-	-	-	-	281,175	55,200	341,530
-	-	-	4,873,650	1,458,500	3,609,300	9,941,450
-	-	-	-	-	-	50,000
-	16,539	280,708	1,989,500	-	-	3,787,573
-	-	-	-	2,251,331	4,257,534	6,508,865
-	16,539	280,708	6,863,150	3,991,006	7,922,034	20,629,418
\$ 118,397	\$ 16,539	\$ 280,708	\$ 6,863,150	\$ 4,040,370	\$8,087,354	\$ 21,086,362

Charter Township of Shelby

	Nonmajor Special Revenue Funds					Michigan
	Emergency Response	Street Lighting	Building Authority	41st District Court	Cable Television	Justice Training Grant
Revenue						
Federal grants	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
State-shared revenue and grants	85,296	-	-	-	-	16,076
Other local donations and grants	-	-	-	-	-	-
Other charges for services	-	275,452	-	-	5,375	-
Fines and forfeitures	-	-	-	-	-	-
Interest	4,217	16,461	419	-	43,067	-
Other	-	33	-	-	793,234	-
Total revenue	89,513	291,946	419	-	841,676	16,076
Expenditures						
General government	-	-	234	-	-	-
41A District Court	-	-	-	2,069,208	-	-
Public safety	62,831	-	-	-	-	20,585
Public works	-	221,275	-	-	-	-
Recreation and culture	-	-	-	-	589,758	-
Capital outlay	-	-	-	6,943	28,723	-
Total expenditures	62,831	221,275	234	2,076,151	618,481	20,585
Excess of Revenue Over (Under) Expenditures	26,682	70,671	185	(2,076,151)	223,195	(4,509)
Other Financing Sources (Uses)						
Transfers in	-	-	-	2,185,151	-	-
Transfers out	-	(2,199)	-	(109,000)	(20,000)	-
Total other financing sources (uses)	-	(2,199)	-	2,076,151	(20,000)	-
Net Change in Fund Balances	26,682	68,472	185	-	203,195	(4,509)
Fund Balances - Beginning of year	91,263	91,657	14,886	-	1,047,395	16,755
Fund Balances - End of year	\$ 117,945	\$ 160,129	\$ 15,071	\$ -	\$ 1,250,590	\$ 12,246

Other Supplemental Information
Combining Statement of Revenue, Expenditures,
and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended December 31, 2007

Nonmajor Special Revenue Funds				Nonmajor Capital Projects Fund		Total Nonmajor Governmental Funds
Community Block Grant	Federal Forfeiture	Drug Forfeiture	Postemployment Benefits	Public Improvement	Equipment Replacement	
\$ 253,401	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 253,401
-	-	-	-	-	-	101,372
-	-	-	-	-	2,215	2,215
-	-	-	-	-	-	280,827
-	-	46,240	-	-	-	46,240
-	710	11,456	-	-	-	76,330
-	-	-	-	-	24,410	817,677
253,401	710	57,696	-	-	26,625	1,578,062
4,500	-	-	-	319	-	5,053
-	-	-	-	-	-	2,069,208
-	-	58,625	-	-	-	142,041
129,012	-	-	-	15,044	-	365,331
6,743	-	-	-	-	6,514	603,015
-	-	-	-	1,642,160	604,726	2,282,552
140,255	-	58,625	-	1,657,523	611,240	5,467,200
113,146	710	(929)	-	(1,657,523)	(584,615)	(3,889,138)
-	-	-	1,529,950	3,177,138	1,675,299	8,567,538
-	-	-	-	-	-	(131,199)
-	-	-	1,529,950	3,177,138	1,675,299	8,436,339
113,146	710	(929)	1,529,950	1,519,615	1,090,684	4,547,201
(113,146)	15,829	281,637	5,333,200	2,471,391	6,831,350	16,082,217
<u>\$ -</u>	<u>\$ 16,539</u>	<u>\$ 280,708</u>	<u>\$ 6,863,150</u>	<u>\$ 3,991,006</u>	<u>\$ 7,922,034</u>	<u>\$ 20,629,418</u>

Charter Township of Shelby

Other Supplemental Information Combining Statement of Assets and Liabilities Fiduciary Funds - Agency Funds December 31, 2007

	Agency Funds						
	Trust and Agency	Treasurer's Agency	Current Tax Collection	41st District Court	Accounts Payable Imprest	Payroll Imprest	Total Agency Funds
Assets							
Cash and cash equivalents	\$ 1,125,409	\$ -	\$ 14,080,643	\$ 95,327	\$ -	\$ 31,189	\$ 15,332,568
Receivables:							
Other receivables	-	-	-	970	-	-	970
Due from other governmental units	-	-	-	-	-	1,413	1,413
Deposits	-	-	-	25,296	-	-	25,296
Total assets	<u>\$ 1,125,409</u>	<u>\$ -</u>	<u>\$ 14,080,643</u>	<u>\$ 121,593</u>	<u>\$ -</u>	<u>\$ 32,602</u>	<u>\$ 15,360,247</u>
Liabilities							
Accounts payable	\$ -	\$ -	\$ -	\$ 97,881	\$ -	\$ 32,602	\$ 130,483
Refundable deposits, bonds, etc.	1,125,409	-	-	-	-	-	1,125,409
Accrued and other liabilities	-	-	-	23,712	-	-	23,712
Advance tax collections	-	-	14,080,643	-	-	-	14,080,643
Total liabilities	<u>\$ 1,125,409</u>	<u>\$ -</u>	<u>\$ 14,080,643</u>	<u>\$ 121,593</u>	<u>\$ -</u>	<u>\$ 32,602</u>	<u>\$ 15,360,247</u>

Charter Township of Shelby

**Report to the Board of Trustees
December 31, 2007**

To the Board of Trustees
Charter Township of Shelby

We have recently completed our audit of the basic financial statements of Charter Township of Shelby (the "Township") for the year ended December 31, 2007. In addition to our audit report, we are providing the following report on internal control, report on results of the audit process, and informational comments which impact the Township:

	<u>Page</u>
Report on Internal Control	3-4
Report on Results of the Audit Process	5-7
Informational Comments	8

We are grateful for the opportunity to be of service to the Township. Should you have any questions regarding the comments in this report, please do not hesitate to call.

Very truly yours,

Plante & Moran, PLLC

A handwritten signature in black ink that reads "Christina M. Kostiuk".

Christina M. Kostiuk

A handwritten signature in black ink that reads "Lisa C. Manetta".

Lisa C. Manetta

Report on Internal Control

To the Board of Trustees
Charter Township of Shelby
52700 Van Dyke Avenue
Shelby Township, MI 48316

Dear Board Members:

In planning and performing our audit of the financial statements of Charter Township of Shelby as of and for the year ended December 31, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the Township's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Township's internal control. Accordingly, we do not express an opinion on the effectiveness of the Township's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiency to be a significant deficiency in internal control.

The process of accumulating data for the Township's financial statements requires input from numerous departments. During the current year, sufficient information was not provided to financial management to properly reflect all transactions of the Police and Fire Retirement System Trust Fund in the Township's financial records prior to the commencement of the audit. Specifically, the Police and Fire Pension Board authorized a transfer of funds and establishment of a new account with investment custodians, but did not provide information regarding these transactions to financial management. This was detected through the course of our audit procedures and brought to the Township's attention. The Township took immediate action and the transactions are now properly reflected in the December 31, 2007 financial statements.

To the Board of Trustees
Charter Township of Shelby

This communication is intended solely for the information and use of management, the board, and others within the Township and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Plante & Moran, PLLC

A handwritten signature in black ink, reading "Christina M. Kostiuk". The script is cursive and fluid.

Christina M. Kostiuk

A handwritten signature in black ink, reading "Lisa C. Manetta". The script is cursive and fluid.

Lisa C. Manetta

June 2, 2008

Report on the Results of the Audit Process

To the Board of Trustees
Charter Township of Shelby
52700 Van Dyke Avenue
Shelby Township, MI 48316

Dear Board Members:

We have audited the financial statements of Charter Township of Shelby for the year ended December 31, 2007, and have issued our report thereon dated June 2, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated November 1, 2007, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. We are responsible for planning and performing the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of Charter Township of Shelby (the "Township"). Our consideration of internal control was solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters and our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our discussions about planning matters and a letter regarding the same dated April 21, 2008.

To the Board of Trustees
Charter Township of Shelby

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Charter Township of Shelby are described in Note I to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2007. We noted no transactions entered into by the Township during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred. The disclosures in the financial statements are neutral, consistent, and clear.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Management's estimate of the net pension obligation is based on actual contributions made and the actuary's recommended contribution. We evaluated the key factors and assumptions used to develop the net pension obligation in determining that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

Disagreements with Management

For the purpose of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

To the Board of Trustees
Charter Township of Shelby

Management's Representations

We have requested certain representations from management that are included in the management representation letter dated June 2, 2008

Management's Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Township's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

In the normal course of our professional association with the Township, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the Township, and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the Township's auditors.

This information is intended solely for the use of the Township's board and management and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Plante & Moran, PLLC



Christina M. Kostiuk



Lisa C. Manetta

June 2, 2008

Informational Comments

Retiree Healthcare Benefits

As you are aware, the Governmental Accounting Standards Board has released Statement Number 45, *Accounting and Reporting by Employers for Post Employment Benefits Other Than Pensions*, which will be effective for the Township's 2008 calendar year. In anticipation of these new rules, the Township set up a separate special revenue fund to save money for this future expense and had an actuarial study performed. As the implementation date is drawing near, this actuarial study will need to be updated by the end of this year to meet the requirements of GASB 45. An updated actuarial report will also assist the Township in budgeting for future payments and determining to what extent the annual required contributions determined by the actuary will be made.

The Township will also need to consider the method of funding used toward the actuarially determined liability. Similar to pensions, the monies that have been set aside must be legally restricted and held in trust in order to be counted toward the retiree healthcare liability, which cannot be accomplished in a special revenue fund. This would also allow the Township to invest these funds in accordance with the Public Employees Retirement Investment Act, which should significantly reduce the long-term burden of funding retiree healthcare costs.